

INTRODUCTION

The County Executive Office presents the Adopted Budget for FY 2001-02. This budget reflects Orange County's disciplined approach to fiscal management and is consistent with the priorities set forth in the County's 2001 Strategic Financial Plan. This Budget was discussed at a public hearing beginning June 12, 2001, amended as directed by the Board of Supervisors during the hearings and adopted on June 26, 2001.

There are many factors, including the strength and diversity of the local economy, State and Federal budget decisions that affect the total available financing for the programs and projects included in this budget. This introduction contains a guide to reading the budget document, a brief description of the County's form of government, Supervisorial Districts, mission statement and the County's Corporate Management System. This report reviews the State budget and economic factors influencing the County budget, provides summary budget information, and issues in various program areas of the budget.

I. A CITIZEN'S GUIDE TO READING THE BUDGET DOCUMENT

This document includes information that provides readers with a greater understanding of each department's mission, organizational structure, and performance results as a narrative context for the budget amounts. The introduction section contains several charts and tables which provide an overview of issues affecting the budget, sources and uses of funds and budgeted positions. Following the introduction are sections that present each department and fund in the County's seven program areas. The seven program areas are:

1. Public Protection
2. Community Services
3. Infrastructure and Environmental Resources
4. General Government Services
5. Capital Improvements
6. Debt Service
7. Insurance, Reserves and Miscellaneous

When applicable, the presentation for each department within the seven program areas includes:

An **Operational Summary** including:

- Mission
- Budget at a Glance
- Strategic Goals
- Key Outcome (Performance) Measures (see following paragraph)
- Key Accomplishments of the past year

An **Organizational Summary** including:

- Overview Organization Chart with three levels of detail for most departments
- Description of each major activity
- Ten year staffing trend chart with highlights of staffing changes

A FY 2001-02 **Budget Summary** including:

- Department's plan for support of the County's strategic priorities
- Major changes in the base budget
- Recap of the department total budget
- Highlights of the key budget trends
- A matrix that showing all of the budget units under the department's control

Readers looking for budget information for a specific department can use the Index near the end of the book. Departments are listed in alphabetical order with the page number of that department's budget information.

This is the second year in which all County departments have included key outcome (performance) measures in their business plans and this budget document. The reader may notice some changes in key outcome measures as the County has gained more experience with performance measures and departments have been encouraged to refine the measures. Data collection procedures for some of the measures are still in development; their results will be reported in future budget documents. Some measures may continue to be refined or changed as the County business plan and performance measurement processes evolve.

Following the seven program areas is an appendix for readers who desire an additional level of budget detail including each department's total budget by major revenue and expense category and a recap of appropriations by activity.

II. ORGANIZATIONAL OVERVIEW

The Orange County's FY 2001-02 Adopted Budget presents the County's financial capacity and priorities in providing social, environmental, public health, safety and regional planning services for its residents. The County provides the public with a comprehensive array of public services through its 23 departments and through comprehensive community partnerships with public, private and non-profit agencies.

FORM OF GOVERNMENT

The County is a general law County divided into five supervisorial districts on the basis of registered voters and population. (Districts were redrawn and adopted effective September 14, 2001 as noted later in this report. The descriptions below incorporate the changes.) The County is governed by a five-member Board of Supervisors who serve four-year terms and annually elect a Chairman and Vice Chairman. The members of the Board of Supervisors by district are as follows:

CYNTHIA P. COAD, *Chair*, from the Fourth District, representing the communities of Buena Park, Fullerton, La Habra, Placentia and portions of Anaheim.

JAMES W. SILVA, *Vice Chair*, from the Second District, representing the communities of Costa Mesa, Cypress, Fountain Valley, Huntington Beach, La Palma, Los Alamitos, Newport Beach, Seal Beach, Stanton, and portions of Garden Grove.

CHARLES V. SMITH, from the First District, representing the communities of Santa Ana, Westminster, and portions of Garden Grove.

TODD SPITZER, from the Third District, representing the communities of Brea, Irvine, Orange, Villa Park, Yorba Linda, Tustin and portions of Anaheim.

THOMAS W. WILSON, from the Fifth District representing the communities of Aliso Viejo, Dana Point, Laguna Beach, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, Mission Viejo, San Clemente, San Juan Capistrano and Rancho Santa Margarita.

REDISTRICTING

The Board of Supervisors is required by the California Elections Code to redraw Supervisorial District lines following each decennial census. With the completion of Census 2000, the County went through a district boundary redraw process. That effort involved creation of a Redistricting Committee which conducted several public meetings to solicit input from the public and to oversee the process. Technical assistance was provided through a contract with the Center for Demographic Research at California State University, Fullerton. Staff assistance was provided by the County Executive Office, County Counsel, Clerk of the Board, Planning and Development Services Department and the Public Facilities and Resources Department. Proposals from the public were received through May 18 and following that the Redistricting Committee made its recommendation to the Board. The Board held a public hearing July 17 to select a plan and direct the Surveyor to draft a proposed ordinance with district boundaries. The Board of Supervisors adopted a Redistricting Ordinance on August 21, 2001. The ordinance is effective September 14, 2001.

COUNTY MISSION STATEMENT

In 1996, the County adopted its first mission statement to define Orange County government, its organizational focus and core businesses. Since that time, the mission statement has annually been reaffirmed by the Board of Supervisors based on input and suggestions from staff and other stakeholders. The County's mission statement reads:

The County of Orange is a collection of dedicated, public-spirited individuals, who together comprise a regional service provider and planning agency committed to maximizing resources and improving the quality of life for residents in Orange County. Our core businesses are public safety, public health, environmental protection, regional planning, public assistance, social services and aviation.

The County is committed to providing Orange County residents with the highest quality programs and services as articulated in its mission statement. Supporting this mission statement is a series of guiding principles that frame how the County operates and prioritizes its resources:

- **RELY ON THE STRATEGIC FINANCIAL PLAN** to make day-to-day decisions that consistently move the County toward its long-term goals.

- **VALUE OUR WORKFORCE** to ensure that citizens are served by a professional and dedicated workforce.
- **ENHANCE TECHNOLOGY** for productivity and service delivery to use modern methods to reduce costs and improve services.
- **COMMUNICATE COUNTY PRIORITIES** to ensure that our employees and partners understand how the County is achieving its long-term goals.

INNOVATIVE GOVERNMENT

As part of the Board's vision of an accountable, efficient and responsive government, the County began a comprehensive effort in 1996 to develop a process for effective decision-making and performance measurement. This effort is referred to as the Corporate Management System and includes a series of related, but independent initiatives to improve how the County plans and prioritizes its resources to achieve its organizational goals. The initiatives consist of:

- County Mission Statement
- Ongoing Organizational Evaluation
- Annual Departmental Business Plans
- Strategic Financial Plan
- Performance Measurement

Beginning with the first restructuring effort in 1996, the County adopted a corporate culture of continuous improvement which challenges managers throughout the organization to continually evaluate how services are provided to determine whether they can better meet customer needs or be provided more efficiently. **Ongoing organizational evaluation** refers to the process of continually reevaluating services to improve customer service, increase cost-effectiveness, and/or enhance service delivery. Through the development of **annual departmental business plans**, departments identify goals and objectives and develop strategies to achieve their goals within constrained financial resources.

The **Strategic Financial Plan** process provides the framework for implementing new programs and facilities as well as serving as the foundation for the annual budget. This framework enables the Board to make annual funding decisions within the constraints of a comprehensive, long-term perspective. Since 1998, the Strategic Financial Plan has been annually updated to review revenue and expense forecasts. New priorities are identified and considered every two years as part of a comprehensive re-adoption of the plan.

Complementing strategic and business planning is a comprehensive **County performance measurement system** which includes three main elements:

- **Community Indicators** - The 2001 Community Indicators Report provides a comprehensive assessment of Orange County using seven groups of indicators: economic and business climate, technology and innovation, education, health and human services, public safety, environment and civic engagement. Several new indicators were added within these groups including tourism, transit, world trade and physical fitness of children.
- **Performance Measurement** - Measuring outcomes and focusing on results is increasingly becoming a way of doing business for the County. Since July 1998, the County has been working to develop meaningful measures of the outcomes specific to each department's mission and goals. This budget document contains reporting on key outcome measures of all departments.
- **Performance Incentive Program**-In order to provide incentives that motivate and reward employees for achievement linked to County goals, employee performance incentive programs have been implemented. Under the leadership of the Orange County Labor Management Taskforce, the Performance Incentive Program (PIP) continues to strengthen the links between individual performance and goal achievement for represented employees. Similarly, the Management Performance Plan (MPP) has directly linked management performance rewards to the achievement of project and competency development goals linked to County and Agency/Department business goals and objectives.

Each year the County makes progress in further integrating these tools into the way the County operates, prioritizes its resources, and makes decisions. Performance measures, for example, are being used to evaluate investments in programs and the community indicators report helps identify target areas for future collaborative initiatives. A major step taken in last year's budget process was to link requested budget augmentations (requests for additional or new resources) to program plans regardless of their funding source. This year, the outcomes of those performance plans were reviewed as part of the process to determine continued funding of those augmentations for another year. New augmentation requests for FY 2001-02 included performance plans and will undergo the same review next year.

In FY 2001-02, the County will continue the progress made and strive for innovation in service delivery, strategic planning, and performance measurement. Through collaborative partnerships and input from the community, Orange County will continue to be an example of innovative government.

III. FINANCIAL OUTLOOK FOR FY 2001-02

ECONOMIC ENVIRONMENT

Orange County is blessed with a strong and diverse local economy that currently out-performs state and national economies. While there has been increasing attention and concern regarding the current slowdown in the national economy, economic conditions have been brighter in California, and better yet in Orange County. While the downturn in the national economy will have a negative impact on growth locally, the economic health of Orange County relative to that of the State and the nation is expected to continue. Increasing energy costs (for electricity and natural gas) and reliability of electrical service also continue to be a concern at the local and state level. The FY 01-02 final budget contains significant increases for energy costs as discussed below.

The growth in the Gross County Product (a measure of the local economy produced by the Anderson Center for Economic Research at Chapman University) released in December 2000 projected an increase of 6.4% percent between 2000 and 2001, reaching \$133 billion. This was more than double the increase forecasted at that time for the national Real Gross Domestic Product (GDP) of 3.1%. A more recent fore-

cast released by Chapman University in June 2001 updates selected indicators in their December forecast. This forecast indicates that national economic conditions are continuing to deteriorate, reflecting a revised projection for GDP growth of only 1.6% in 2001, rebounding to 2.7% in 2002. Orange County's Gross County Product should continue to maintain its relative health when compared to the nation's GDP.

Orange County's unemployment rate continues to represent one of the lowest in the State, and remains significantly below state and national averages. June 2001 unemployment rates for the U.S., California and Orange County were recorded at 4.7%, 5.3% and 3.1% respectively. Orange County's job growth totaled 3.4% in 2000 and is projected to average 2.4% in 2001 and 2.8% in 2002 according to Chapman University.

Inflation is expected to remain at moderate levels. The Consumer Price Index (CPI) for the nation grew by 2.7% in July 2001 over July of 2000, while the Index for the Orange County area increased by 3.6% during this same time period. Chapman University expects inflation in Orange County to average 3.3% and 3.2% respectively in 2001 and 2002.

According to First American Real Estate Solutions, in June, 2001, the average price of both new and existing homes in Orange County increased 8.3% over June of the previous year, reaching \$333,585. Housing appreciation has been rapid in response to high demand as a result of steady job growth, low interest rates and a tight supply of housing. The Meyers Group recently released a survey ranking Orange County as the nation's hottest real estate market. For the future, Chapman University is projecting that housing appreciation will slow down from its 11.3% peak in 1999 to average increases in 2000, 2001 and 2002 of 9.5%, 9.0% and 6.3% respectively, with this slowing in appreciation due mainly to slower economic growth. While housing appreciation is an economic strength, it has eroded the ability of many middle and low income families to afford housing within the County. Lack of housing affordability discourages business expansion as employees increasingly move to the Inland Empire where housing is more affordable.

Orange County's median family income is projected to increase 7.9% in 2001, reaching \$71,200. Growth in the County's taxable sales will decline significantly from its 9.9% growth rate during 2000, reflecting current economic conditions. Taxable sales are expected to increase by 5.3% in 2001 and 6.0% in 2002. The current economic environment

in Orange County should continue to have a positive impact on the receipt of general purpose and other revenue sources that the County depends upon to fund its operations. These generally favorable economic trends should also help reduce some of the service demands placed on County government. Current trends in income and taxable sales should also have a positive impact on the County budget.

STATE LEGISLATION AND BUDGET

On July 26, 2001, Governor Davis signed the 2001-02 Budget Act that authorizes total spending of \$103.3 billion, a \$2.4 billion increase from the previous fiscal year. The State budget reflects significant reductions from the January 2001 proposed budget due to a slowdown in the State economy and State revenues. Generally, the energy crisis resulted in the elimination of funding for local government programs and initiatives across the board. However, cuts made by the Governor appear to be fairly evenly spread throughout this budget, which is being described as a "mixed bag" for local governments. The anticipated impacts on Orange County are summarized as follows and may be subject to change or adjustment pending final formula calculations or other actions State agencies and departments.

Public Safety

■ **Proposition 36 Drug Treatment Implementation** - This legislation went into effect on July 1, 2001. Funding of \$120 million statewide was allocated as required by the Initiative. Orange County will receive approximately \$8.3 million in this first full year of operations. This was the amount used for planning for the consortium of services and community supervision for an estimated caseload of 3,500-4,500 adults. However, the \$8.3 million is still considered insufficient and cannot be used for drug testing, which is an integral component of substance abuse treatment. Orange County funding required for drug testing is estimated at approximately \$860,000. Senate Bill 223 by Senator Burton, proposes to address this problem, but was held over as a two-year bill in deference to the budget crisis. Therefore, it is not expected to provide relief this year.

■ **Probation: Juvenile Justice Crime Prevention Act (CPA) Programs** - The four percent reduction in the final state budget brought \$121.3 million to \$116.3 million statewide, but it will not go into effect until

FY 02-03. Orange County's annual share of this funding is \$10 million so the four percent reduction should ultimately result in a \$400,000 decline in the CPA funds available for FY 02-03. Because the funds are held in an interest-bearing account with all interest earnings going toward approved juvenile justice programs, the impact of the \$400,000 reduction should prove minimal.

■ **Citizens' Option for Public Safety (COPS)** - A statewide funding cut of \$5 million translates into a two percent reduction (\$22,000) to the Orange County's allocation. Orange County Sheriff's Department FY2001-02 allocation is approximately \$1 million. Funding for the unincorporated area is approximately \$315,000. As this is a population based allocation adjustments for new city incorporations must be considered.

■ **Technology Funding for Local Law Enforcement** - This enables law enforcement officers to bring technology into the field via mobile data computers. This allocation is based on countywide population figures. Last year Orange County received \$1,077,728. Projected figures for FY 2001-02 funding are not yet available.

■ **High Technology Crime Programs** - State funding allows continuation of regional task forces formed to fight identity theft and crimes committed over the Internet. Orange County is a member of the Southern California Regional High Tech Task Force. Los Angeles County is the lead agency.

■ **Trial Court Funding** - The Judicial Branch Budget includes \$20.9 Million increase to the state court system to address workload growth and to fund court-appointed counsel costs for indigent defense at the appellate level. This amount will also fund administrative assistance to the trial courts in the areas of contracting and procurement, statistical information, and personnel and employee administration.

Community Services:

■ **SB 90 Funds for Special Education Children** - The FY2001-02 State budget includes \$39.8 million for these funds. The amount reflects a 5% cut from last year due to the Governor's cut of many items to

increase the budgeted reserve. Any shortfalls in reimbursing County claims are normally made up in the following year by another State funding source. The modifications to claiming guidelines are key to continuing receipt of this funding source. Currently there are modifications in review by the commission. The modifications would affirm the County's claiming practices.

■ **Drug and Alcohol Youth Treatment Program** - Health Care Agency budgeted State revenue of approximately \$417,000 has been eliminated. At least one-third of an adolescent residential treatment contract and 2.5 clinical staff positions are in jeopardy. Funding alternatives are being explored and recommendations will be brought to the Board as appropriate.

■ **Drug Court Partnership and Comprehensive Grant** - Cuts to local funding are expected, but exact amounts are unknown at this time. Estimates are between 20% and 100%. This means a loss to Orange County of \$0.2 to \$1.1 million. Impacts on court and partnership operations are also not known at this time, but are expected to be significant.

■ **HIV/AIDS** - Local funding for prevention, counseling and testing in clinics has been cut by 10%. Fiscal and program impacts to Orange County's efforts can not be determined until various determinations are made by the State Department of Health Services.

■ **Maternal and Child Health (MCH)** - Funding was cut approximately \$2.6 million statewide, which translates to a loss of approximately \$176,000 for Orange County. The reduction will require an adjustment to the MCH grant budget, at which time more precise program impacts will be provided.

■ **Trauma Care System** - Orange County is slated to receive over \$2.3 million of a one-time statewide allocation of \$25 million from the State Emergency Medical Services Agency.

■ **Healthy Families and Medi-Cal** - Healthy Families was funded to include parents as well as children. An eligible parent may earn up to 250% of the

federal poverty level annually. However, the Governor removed language that would have made this parent coverage a State provided entitlement, thus putting the new coverage in jeopardy in future budget years.

■ **Breast and Cervical Cancer** - Statewide programs have been expanded. Treatment for both cancers has been added for women over 40 years of age and in families earning at or below 200% of the federal poverty level. These are to be paid through an expanded Medi-Cal insurance option and, for those not eligible for the new option, State-only funding. County budget impacts will be determined after the State makes its determination on funding mechanics. The new services are consistent with County efforts to secure passage of County sponsored legislation AB1154 (Bates) and SB 224 (Speier).

■ **Early Access to Primary Care Program** - Statewide funding was increased by \$10 million. Impacts to the Health Care Agency budget are not known at this time.

■ **CalWORKs Performance Incentive Funds** - The final budget includes \$20 million for 2001/02. The level of funding is inadequate and will result in a loss of approximately \$13.2 million annually in incentive earnings for Orange County. Although the loss of these funds will not impact CalWORKs core operations, it will severely impact future funding of important newly developed programs such as Family Resource Centers, after school programs, and emancipation services. No impact on the County's FY2001-02 budget is anticipated.

■ **CalWORKs Funding For Eligibility, Child Care, Cal Learn, Employment Services** - \$1.7 billion is budgeted for CalWORKs components consisting of eligibility, childcare stage I, and employment services. This amount is level with FY2000-01 and will not be sufficient funding for enhancements to the program. However, total CalWORKs administrative funding for FY2001-02 is at the same level as funding for FY2000-01 and consequently SSA anticipates sufficient funding for core operations. Because of the ability to transfer funds between administration and childcare and the availability of incentive funds, SSA does not anticipate funding difficulties.

■ **CalWORKs Assistance Payments** - \$128.3 million is budgeted for CalWORKs for an October 2001 cost-of-living adjustment of 5.31% based on the California Necessities Index. Each CalWORKs recipient family will realize a 5.31% increase to their monthly cash benefit. The cost of living adjustment will be approximately \$4.1 million in appropriations and \$102,926 in County General Funds. A 4.85% COLA was incorporated in the County budget based on the November subvention. Due to the higher COLA of 5.31%, \$377,460 in appropriations and \$9,400 of the general fund cost was not included in the County budget.

■ **In Home Support Services (IHSS)** - The State Budget provides \$99 million to fund wage increases effective July 1, 2001 and January 1, 2002 for IHSS. This may make it easier for IHSS recipients to locate and hire providers. The net county cost increase will be approximately \$408,000 for FY 2001-02. This amount is budgeted for 2001-02.

■ **Child Welfare Services (CWS) - Workload Relief** - \$124 million for continued funding of Child Welfare Services is expressly targeted for Emergency Response/Family Reunification/Family Maintenance/Permanent Placement as a response to the need to better protect California's vulnerable children. The State and the Child Welfare Stakeholders' Group will continue to review existing CWS programs, components and systems that is expected to lead to recommendations for improvement over the next three years. This has allowed CWS agencies to reduce caseloads which will in turn better protect children, increase provision of quality services to families, increase quality assurance standards and improve documentation of case-related information. It will further increase Orange County's ability to attract and retain qualified social workers. This amount is a continuation of funding received in FY2000-01 and will fund workers previously added through the budget process. However, the budget does not include additional funds for further improvements.

■ **CWS - Cost Of Doing Business** - \$93 million in total funds (\$37.5 in state funds) were added to CWS Basic funding in the Final Budget. These funds were added by the legislature and were approved by the Governor in recognition of the need to augment

Child Welfare Services funding. Orange County should receive approximately 6% of the amount budgeted.

■ **Foster Care COLA** - The state budget contains an increase of \$64.3 million for a 5.31% COLA for Foster Care. This will strengthen retention for Foster Care providers. Additionally, it will enhance CWS agencies ability to meet the Adoption and Safe Family Act (enacted 1997) outcome measures. The cost of the COLA is \$4.1 million in appropriations and approximately \$1.6 million in County General Funds. A 4.85% COLA was incorporated in the County budget based on the November subvention. Impact of the higher COLA of 5.31%, may be included in a quarterly budget adjustment.

■ **Special Circumstances** - The state budget reduced this item by \$3.3 million or 40% from the existing \$8.3 million statewide program which is roughly a \$28,000 reduction out of \$72,000 for Orange County. Services/goods will not be provided once funds are utilized. County budget will be adjusted for the reduction after the correct amount of reduction for Orange County is known.

■ **County Services Block Grant (CSBG)** - In the May 2001 revise, the funding was reduced by \$9.6 million and was not restored in the final budget. It is estimated that Orange County's share of the reduction is \$500,000 resulting in the need to freeze filling five positions until funding is restored or additional Adult Protective Services (APS) funding materializes.

Infrastructure and Environmental Services

■ **Housing and Community Development (HCD)** - The approved State budget reduced funding for housing to \$138 million. This is a significant drop from last year's \$560 million budget for housing, but is still far better than what had been allocated in previous years. Multifamily Housing Program (MHP), the CalHOME Program, and the Supportive Housing Program (SHP) experienced the largest cuts. For the most part decreases in State funding will not have a direct impact on Orange County as most of the activities undertaken by HCD are Federally and locally funded. However, State funds are a crucial leveraging resource for developers of afford-

able housing. The reduction in funds for programs such as MHP and Emergency Housing Assistance Program (EHAP) could negatively impact the leveraging ability of non-profit and for-profit organizations. Ultimately, this could result in greater demand on County funds and/or less affordable housing development altogether.

■ **Public Library Foundation Act Program** - The Governor's January budget included a modest increase for the Public Library Foundation Act (PLFA) program. This fund is allocated on service area population, per capita and last year provided OCPL with approximately \$2.2 million. County budget projections for 2001-02 however, assumed that revenue from this source would remain flat at the prior year level. In the final budget this item was reduced below the base by approximately 5%. As a result, it appears there may be a \$100,000 shortfall from original projections. Though no programmatic effects are anticipated, OCPL will attempt to substantially replace this loss of revenue from other necessary adjustments.

■ **Traffic Congestion Relief Program (TCRP)** - As part of the budget compromise this year the Legislature approved a refinancing plan that defers the transfer of gasoline sales tax revenues from the General Fund to the Transportation Investment Fund (TIF) for two years, meaning that the transfer enacted under the TCRP in 2000 will begin in 2003-04 instead of 2001. Extending the program for two additional years will make up short-term losses. The best news for counties is that local street and road funds are not affected and Orange County projects will go forward.

■ **Clean Beaches Initiative** - When the Governor introduced the Clean Beaches Initiative in his January budget it was funded at \$100 million. This item was reduced to only \$10 million and nearly every county that submitted projects was affected. In Orange County funding for Huntington State Beach-Santa Ana River project was cut from \$2,039,000 to \$1,000,000, and the Huntington Harbor project was eliminated.

■ **Flood Control Subventions** - \$44 million was retained in the final budget for flood subvention reimbursement payments to counties. This is the last of four payments as authorized in AB 2784 (Ch. 326, Statutes of 1998). Orange County is slated to receive \$20.4 million.

MAJOR REVENUE AND EXPENSE ASSUMPTIONS

The County budget includes a wide variety of funding sources. State and Federal funding sources are estimated by departments based on established funding allocation formulas and caseload projections and State budget information. Basic secured and unsecured property taxes are projected to increase by 6%. Motor vehicle license fees are projected to decline by 2.1% based on the State's projections and trend analysis. These fees are net of \$12.4 million set aside to pay the annual cost of the 1995 Recovery Bonds. State residents enjoy a reduction in their motor vehicle license bill and the State backfills the reduction to maintain local government financing at the pre-reduction level. Base sales tax revenue is projected to increase by 5.4% based on estimates by Chapman University; Hinderliter, De Llamas & Associates (sales tax consultant to the County) and the State Board of Equalization. These revenues are reduced \$1.4 million by the incorporation of Laguna Woods and Rancho Santa Margarita. Health & Welfare Realignment revenue from the State allocated to Health, Mental Health and Social Services is projected to increase by 5.8%.

The one-half cent Public Safety Sales Tax (allocated 80% to the Sheriff and 20% to the District Attorney) is projected to increase by 3%, significantly slower growth than the past year. The interest earning rate on cash balances in the County Investment Pool administered by the County Treasurer is expected to be 4.75%, down from the current 4.96%.

On the expense side, labor costs are centrally calculated based on approved positions, historical position vacancy rates and a general 3.25% wage increase that is subject to negotiation and Board approval. Merit increases for certain represented employees are budgeted based on the incumbent salary step level with actual awards based on the employees annual performance review. Performance incentive pay is budgeted at 2% of base pay and actual awards are based on the employees achievement of specific, measurable goals. Retirement costs are expected to be flat for general

employees and reduced slightly for safety employees. Health insurance increases are expected to be nearly 10%. Inflation on other services and supplies is generally estimated at 2.9% with higher amounts for medical supplies and a 40% increase in utilities.

BASIS OF BUDGETING

The County's budget, as is its accounting system, is based on the modified accrual system. Revenues are budgeted as they are expected to be received or as they are applicable to the fiscal year. Fund balance available (FBA) is estimated and adjusted for increases or decreases to reserves. Revenues plus fund balance available equals total available financing. Consistent with the Governmental Accounting Standards Board (GASB) ruling 33, only revenues expected to be received within 60 days of the end of the fiscal year are included. This resulted in a one-time reduction in estimated General Fund Balance Available of \$19 million. Expenses are budgeted at an amount sufficient for 12 months if they are ongoing and in their full amount if they are one-time items. Expenses and increases to reserves may not exceed available financing.

BUDGET DEVELOPMENT

In January 2001, the CEO issued the following budget development policies and guidelines to all County departments as a starting point for the FY 2001-02 budget development:

1. **Consistency with Strategic Financial Plan and Business Plan Concepts:** Base operating budget requests shall be consistent with the elements and concepts contained in the Strategic Financial Plan and the Business Plans. Department heads are responsible for using these planning processes and program performance measurements to evaluate existing programs and redirect existing resources as needed for greater efficiency and to reduce cost.
2. **Base Operating Budgets:** Starting point is the June 20, 2000 adopted budget for FY 2000-01 as modified by year-to-date Board actions. Specific deletions and acceptable additions to these base budgets are outlined as guidance for the new base budgets.
3. **Salaries & Employee Benefits:** The Advanced Budget Preparation system automated salary calculation results set the regular salary and employee benefits base budgets. The vacancy factor is set at the historical actual vacancy rate (12 months ending December 2000 per the bi-weekly Master Position Control reports) for each department. The CEO/Budget Office may agree to exceptions to the calculation on a very limited basis for unusual circumstances. This methodology was introduced for the FY 1999-2000 salary calculations and is effective in setting realistic salary appropriation amounts. Appropriations are monitored during the year. Should departments achieve a lower than budget vacancy rate and appropriations are needed, appropriation adjustments are recommended in the quarterly budget report process.
4. **Services & Supplies:** Services and supplies shall be budgeted at a realistic level as compared to actual use during last fiscal year and current year-end projections, adjusted as outlined in the base budget section above and consistent with the Strategic Financial Plan guidelines.
5. **Billable Services, Fees and Revenue:** Program revenues are to be used for caseload growth. One-time revenues shall be used for one-time expenses. Departmental fees are to be set at full cost recovery. Departments should be able to demonstrate that their fee studies are current. New revenue sources pending legislation or grant approval will be considered during the quarterly budget report process and should not be included in the base budget request (i.e. when legislation is passed or grants awarded).
6. **Net County Cost (NCC):** The 2001 Strategic Financial Plan projected ongoing general purpose revenues growing at a modest rate (about 3% per year) and narrowly in balance with operating expenses. Therefore, there is a continued need to minimize the growth in the use of general purpose revenues. The combined total of base budget requests plus augmentation requests shall be equal to or less than the FY 2001-02 NCC amounts targets.

Departments are encouraged to continue the four-part plan introduced in January 2000 in order to submit NCC requests that are below target. The four-part plan:

- A. Reduce or eliminate lower priority or ineffective programs.
- B. Find efficiencies and savings by streamlining processes, overhead reduction and use of technology.

C. Update fees to ensure full cost recovery and find new revenue sources.

D. Identify legislative changes that can reduce costs or enhance revenues.

7. **Augmentations (requests for new resources):** Augmentations are defined depending on the budget type:

■ For budgets within the General Fund, an augmentation request is any resource request that results in increased NCC, increased position totals (excluding extra-help) or new or enhanced non-mandated programs or services, even if they were included in the Strategic Financial Plan and/or the Business Plan.

■ For special revenue funds, Internal Service Funds and all other budgets outside the General Fund, an augmentation request is any resource request that results in an indirect NCC increase, increased position totals or major new programs not identified in the Strategic Financial Plan or the Business Plan.

All augmentation requests must include performance measures that clearly outline the department's intended outcome(s) resulting from the receipt of the additional resources. The department head must certify that all potential alternatives for redirecting existing resources have been examined and that there are no lower priority items that can be reduced or eliminated in order to free up existing resources. Long term vacant positions will be used in all departments before new positions are added.

New for FY 2001-02: NCC augmentations newly approved for FY 2000-01 will undergo a performance measurement review as a condition of continued funding. Departments will report on the first year results (as much as is available by budget submittal due date) of the performance expectations. These augmentations will be funded if the CEO and department agree that they are meeting the performance expectations, they merit continuation, are still relevant to the department's business plan and sufficient funding exists.

8. **Program Budgets Outside the General Fund:** It is the department head's responsibility to ensure that the proposed use of program funds is consistent with the department's business plans, the County strategic priorities and has been coordinated with the appropriate stakeholder groups external to the County.

In context of these policies and guidelines, the Strategic Financial Plan and departmental business plans, departments prepare current year projections of expenses and revenues and requests for the next fiscal year. The CEO/County Budget Offices reviews the requests, meets and discusses the requests with the department and prepares final recommendations for the Board. These recommendations are presented to the public via a budget workshop before the Board of supervisors holds its public budget hearings. Operating and capital budgets are prepared in this single process and presented together in this budget book.

CONSISTENCY WITH THE 2001 STRATEGIC FINANCIAL PLAN

On December 5, 2000 the Board adopted the 2001 Strategic Financial Plan. Based on the development of the County's mission statement and departmental business plans, this plan serves as a tool for identifying available resources, core business operating requirements and capital needs. The plan helps identify when resources are expected to become available for major projects and when those projects can be started. New programs and projects contemplated in the plan are recommended for Board approval during the budget process. Specific elements from the plan incorporated into the FY 2001-02 Recommended Budget are:

- General purpose revenues and fund balance available in the recommended budget exceed the plan amounts by 4%.
- Increase General Fund Contingencies from \$21 to \$22 million. Of this \$22 million, \$6 million is appropriated in Fund 099 and \$17 million is reserved (not appropriated) in the General Fund. In addition and also consistent with the financial plan, the General fund has \$35.1 million in reserve for future maintenance and construction plus \$44 million in reserve for operational costs of future strategic priorities. The items total \$96.1 million in funds potentially available for appropriation in future fiscal years.

- Increase the Debt Prepayment Fund by \$16.4 million
- Allocate \$2.7 million for enhancement of the Assessment Tax System
- Allocate \$1.6 million for Watershed and Ocean Monitoring Plan
- Implement the provisions of Measure H, the Tobacco Settlement Funds Initiative
- Increase funding for technology including a \$10.33 million bond financing for telecommunications infrastructure upgrade
- Theo Lacy Building B construction (\$36 million; accelerated one year compared to the plan)

IV. FINANCIAL SUMMARY OF THE FY 2001-02 RECOMMENDED COUNTY BUDGET

Preceding the budget program sections, the following charts and schedules are provided as an overview of the budget. The first three charts present the total budget for all funds under control of the County Board of Supervisors. The next two charts focus on the County General Fund. The next two charts focus on the part of the General Fund that is discretionary, available for use in any program area, also called Net County Cost in a departmental budget. The next two charts focus on two significant program revenue sources for Public Protection and Health programs. The last four schedules return the focus to the total County budget.

1. Total County Budget by General Purpose Revenues, Other General Funds and Dedicated Revenues
2. Total County Budget All Funds Controlled by the County Board of Supervisors
3. Total County Revenues by Source
4. Total County Appropriations by Program (Seven Program Areas)
5. General Fund Sources & Uses of Funds
6. General Fund Appropriations by Program
7. General Purpose Revenues (including General Fund Balance Available (FBA))
8. General Fund Net County Cost by Program
9. Public Safety Sales Tax
10. Health & Welfare Realignment Sources & Uses
11. Authorized Positions by Program
12. Total County Budget Comparison to Prior Fiscal Year by Program and Department
13. Total Budgeted Positions Summary by Program and Department
14. County Organization Chart

HIGHLIGHTS OF THE FY 2001-02 ADOPTED BUDGET

In addition to the specific ways in which this budget is consistent with the 2001 Strategic Financial Plan, additional County budget highlights and issues include:

Total Budget:

- Total County Budget is \$4.7 billion, an increase of 4.2% over the previous adopted budget.
- Total budgeted positions are 17,290 an increase of 5.3% over the previous adopted budget.
- Performance measures are used to evaluate continued funding of FY 2000-01 budget augmentations and as the basis for recommendations on FY 2001-02 augmentations regardless of funding source.
- Enhanced display of departmental activity-level budgets.
- Enhanced display of Internal Service Funds and Enterprise Funds (operational statement format).
- Enhanced display of Public Safety Sales Tax revenue for the Sheriff and District Attorney.
- Enhanced display of sources and uses of Realignment Funds for Health, Mental Health, Social Services and Probation.

Specific Program Highlights:

The FY 2001-02 Recommended Budget:

- Recommends additional resources for the District Attorney/Family Support Division and prepares for the division to become an independent County department in FY 2002-03.

- Supports newly incorporated cities by providing law enforcement services to Rancho Santa Margarita and Aliso Viejo during the transition years.

- Adds Sheriff radio dispatchers to the Sheriff Emergency Communications Bureau.

- Provides for the opening of Theo Lacy jail building A providing 384 beds plus 125 medical beds.

- Total Health Care Agency (HCA) funding grows by 17% to \$421 million. The County General Fund contribution to HCA grows by \$12 million or 30%.

- Implements the provisions of Measure H, the Tobacco Settlement Funds Initiative, approved by the voters in November 2000. Total funds for FY 2001-02 are estimated at \$28.8 million and are allocated as follows:

- 19% Health care services for seniors and persons with disabilities (\$5.472 million)
- 23% Emergency room physicians and on-call specialists (\$6.624 million)
- 12% Tobacco related disease prevention and control (\$3.456 million)
- 20% Nonprofit community clinics (\$5.76 million)
- 6% Proportional reimbursement to hospitals for charity care (\$1.728 million)
- 20% Public safety (\$5.76 million) including a drug/alcohol rehabilitation program at Theo Lacy jail (64 secure beds, \$1.3 million)

Use of all Measure H Tobacco Settlement Funds will be monitored for strict adherence to the provisions of the initiative. All Tobacco Settlement Funds will be allocated by the above percentages, whether they fall below budget amounts or meet or exceed budget amounts.

- Implements first full year funding of Proposition 36, the Substance Abuse and Crime Prevention Act. The County will receive nearly \$8 million annually for five years to provide assessment, treatment and monitoring.

- Increases resources for Medi-Cal caseload growth, Child Welfare Services, Adult Protective Services and In-home Supportive Services.

- Includes a contingency funding plan for two mental health programs pending clarification of State claiming guidelines for Special Education Mental Health programs and the review of mental health patient billings under Medicare.

- Funds strategic plans for the Area Agency on Aging and the Registration and Elections Department.

- Includes the new Watershed Management budget of nearly \$12 million to facilitate the Board's leadership in bringing local agencies and organizations together to address watershed issues. Water quality issues will be addressed in conjunction with flood protection, environmental enhancement and recreation.

- Provides for a 40% increase in the cost of energy with a \$5.55 million impact on the General Fund.

- Recognizes the Children and Families Commission (CFC) and the Local Agency Formation Commission (LAFCO) as legal entities separate from the County and not governed by the Board of Supervisors. Therefore this recommended budget only includes funding that the CFC may award County programs and the County's funding of one-third of LAFCO's operating budget.

- Reflects the new operating agreements at Dana Point Harbor.

- Includes nearly \$8 million in State AB 2928 funds for road maintenance.
- Includes nearly \$15 million in Proposition 12 funding for infrastructure improvements at the regional parks and additional resources devoted to meeting some of the criteria for accreditation of the Orange County Zoo at Irvine Park by the American Zoo Association.
- Enhances library services in the cities of Stanton, Villa Park and San Juan Capistrano and adds a full time Adult Services/Reference Coordinator.
- Additional resources in Housing to administer 740 additional rental assistance housing vouchers awarded to the County by the Federal Department of Housing and Urban Development and commits over \$20 million to the development of affordable rental housing for the County's low income residents.
- Funds the Local Redevelopment Authority Program Office (MCAS El Toro Reuse): Aviation planning (Fund 14M-Local Redevelopment Authority \$13 million) and Base maintenance and Community Service Program (Fund 13K-LRA Operations \$14.2 million).
- Provides funding for the Orange County Film Commission (\$100,000), the Art Commission (\$150,000), international business and trade development (\$250,000) and tourism (\$350,000).
- Funds all debt obligation payments. Budgets displayed in Program VI include amounts for annual payments on the County's 1996 Recovery Certificates of Participation (COPS), 1995 Recovery Bonds, debt financing of the Juvenile Justice Center, Manchester parking facilities, and debt financing of infrastructure improvements in the County's Assessment Districts, Community Facilities Districts and the Orange County Development Agency. This program also includes budgets for the debt prepayment fund. Although the County's Pension Obligation Bonds were economically defeased, this budget reflects the payments made by the trustee from escrow. This program also includes the debt associated with the County's Teeter program. Debt related to specific operations such as John Wayne Airport and Integrated Waste Management is

included in Program III where the operational budgets for those operations are also found. The County currently has no general obligation bonded debt because there are sufficient general fund cash balances and reserves. Based on the County's Strategic Financial Plan and at current funding levels, the County is able to fulfill these debt obligations and sustain current and future services and operations.

- Consolidates the Data Services and Telephone Internal Service Fund into a new Telecommunications Internal Service Fund for streamlined administration and billing of those services.
- Funds major capital items including:
 - Construction of Theo Lacy Jail Building B (576 beds; \$36 million)
 - Construction of Foothill Ranch library and the Wheeler Branch library at Irvine Historic Park.
 - Property acquisition related to the Prado Dam on the Santa Ana River
 - Construction of various flood control channel improvements including Segunda Deshecha Channel (\$6 million), Laguna Canyon Channel (\$7 million) and Huntington Beach Channel (\$14 million)
 - Construction of various Americans with Disabilities Act retrofit and deferred maintenance projects at various County facilities
 - New fund for the Ladera Ranch Community Facilities (\$27 million)

V. SUMMARY

This Recommended Budget serves as a realistic plan of resources available to carry out the County's core businesses and priorities. It is consistent with the County's mission, and corporate management system including the strategic financial plan and departmental business plans. It follows the CEO budget policy guidelines, meets the majority of departmental requests, increases resources for critical capital needs and meets important contingency fund and debt reduction goals.

VI. NEXT STEPS

The Board of Supervisors held public hearings regarding this budget on June 12 and 13, 2001. Results of those hearings are incorporated into this budget document. The Board adopted the budget on June 26, 2001 and the fiscal year begins on July 1, 2001. During the fiscal year, the CEO will present the Board with quarterly budget status reports and recommend appropriate changes as needed including changes which may arise from final County fund balances, adoption of the State budget, new legislation, etc.

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You may also review the budget document on-line at:

- <http://www.oc.ca.gov/ceo/finance/>